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THE "RUIN" OF A RAILWAY.

Vide *Times*, 6th April.

THE GREAT WESTERN OF CANADA.

THE REPORT OF THE DIRECTORS

AND

LETTER OF THE Rt. Hon. HUGH CHILDERS EXAMINED,

WITH EXPLANATORY MAP.

"Telling the truth can only injure those who desire to profit by its suppression; concealment of the truth may injure thousands of innocent persons."

[Reprinted from *The Canadian News*, Thursday, April 22, 1875.]

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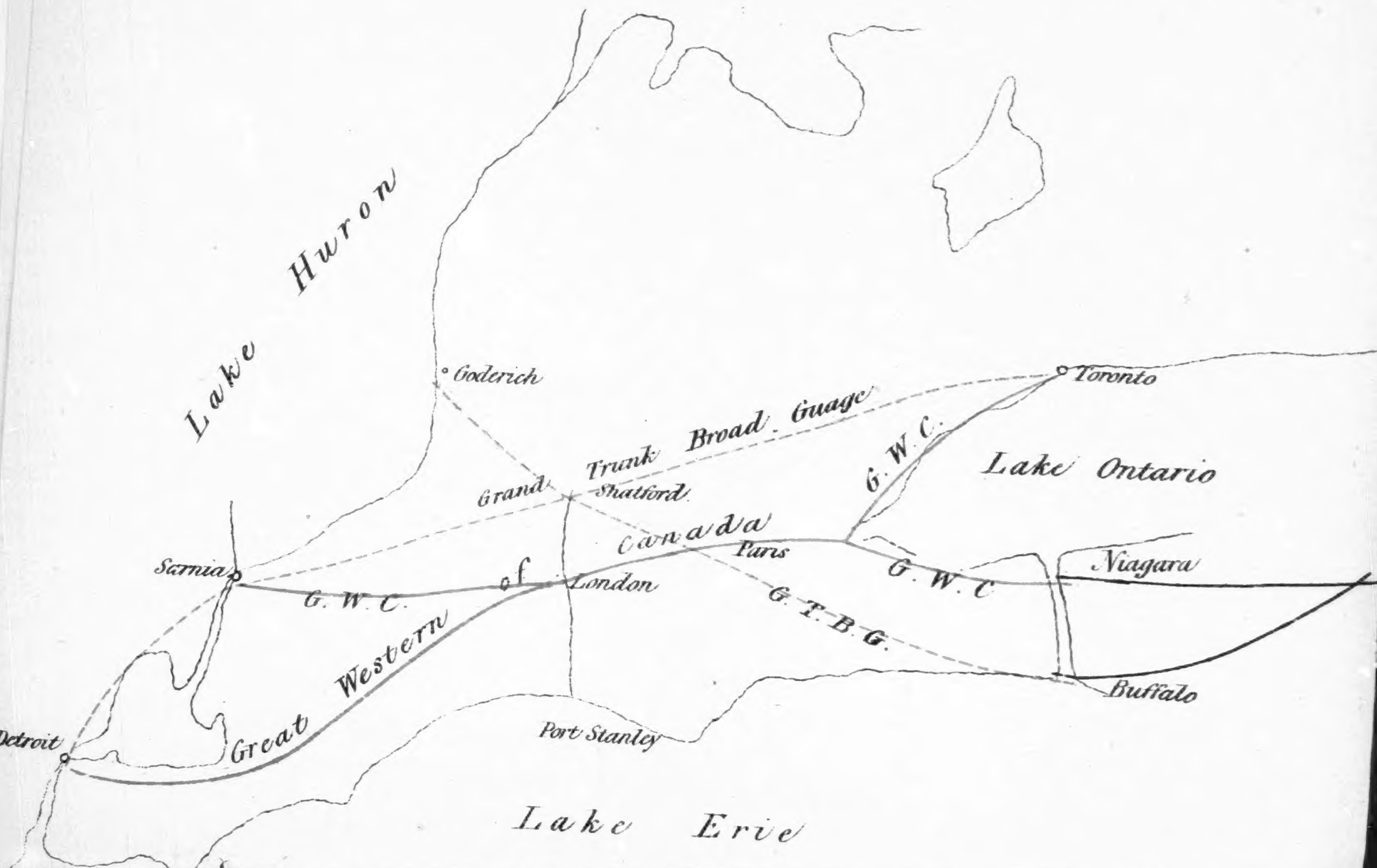
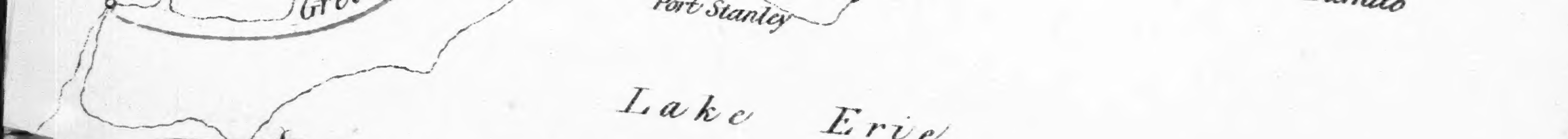
GREAT WESTERN OF CANADA SYSTEM AS IT WAS.
CAPITAL, £5,000,000.



GREAT WESTERN SYSTEM...
CAPITAL £ 9,500,000

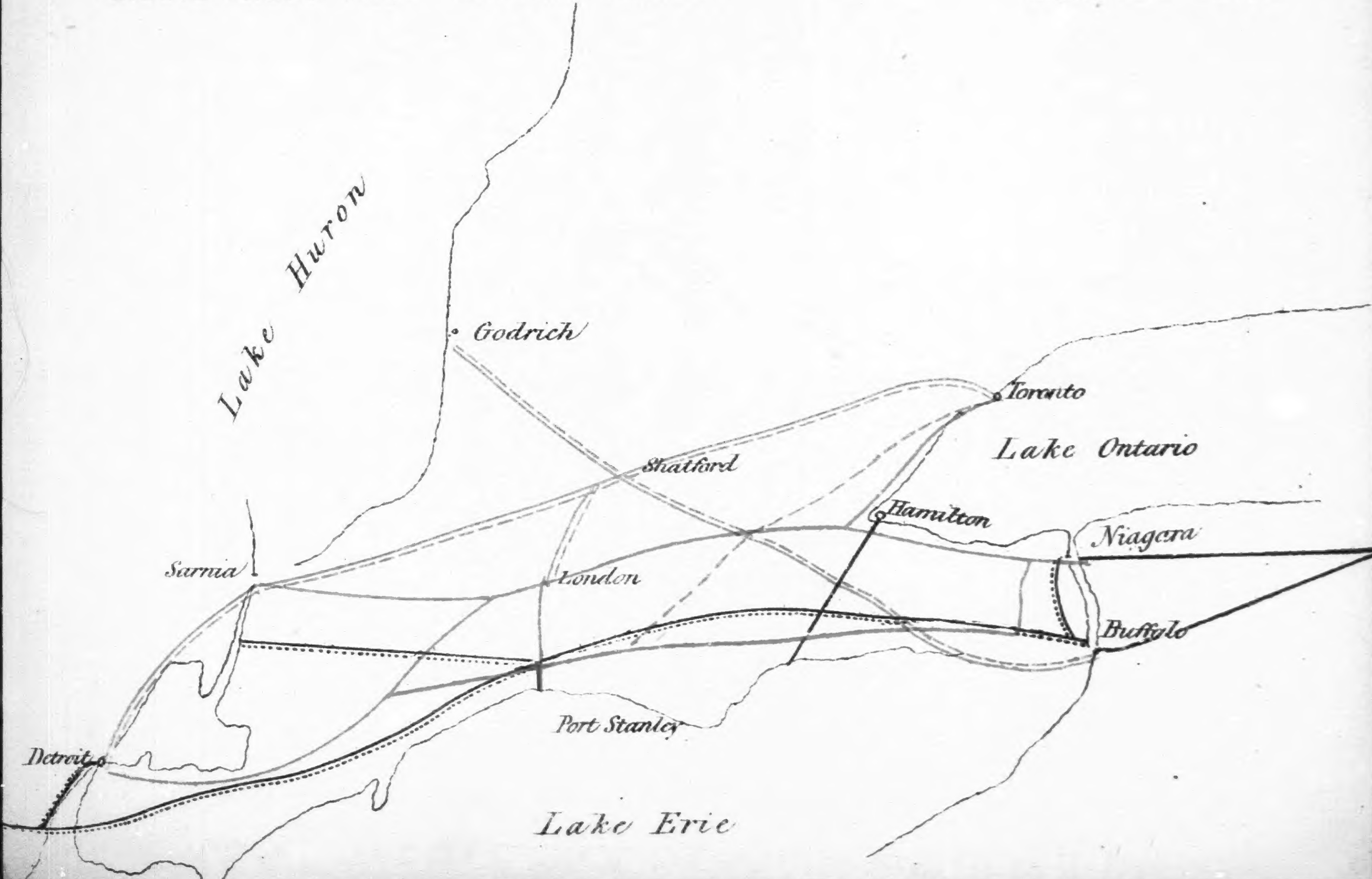


GREAT WESTERN

CAPITAL £9,500,000.

CANADA SOUTHERN COMPETING LINE LATELY OPENED

GRAND TRUNK NOW NARROW GAUGE



THE GREAT WESTERN OF CANADA RAILWAY.

FROM THE "CANADIAN NEWS."

A FORTNIGHT ago we called the attention of our readers to the unfortunate position to which this railway company was reduced, and our statements have since received the most complete official confirmation in the shape of the half-yearly report.

This report is candid and straightforward as far as it relates to the present position of the company, but it is altogether silent as to the prospects of the future. The letter of the Chairman, however, printed with the report, giving the results of his expedition to Canada, after painting in the most gloomy colours the situation as regards the abstraction of traffic, "local" as well as "through," winds up in these words :—

> I make no doubt that, in spite of the recent large increase in capital expenditure, prosperity will return to the Great Western Railway of Canada; but it will require, on the part of the shareholders, as I said in October last, "time, patience, and confidence."

We cannot accuse Mr Childers of using too sanguine expressions, if we make allowances for the usually assumed necessity of saying something hopeful to the shareholders, after such a melancholy account of their position, but it

becomes a question whether it is justifiable, under the circumstances in which this concern is unfortunately placed, to excite such hopes as will unquestionably be raised by using the words "return of prosperity," as if this were only a question of time. If by such expressions immediately over his own signature persons are induced to invest in the share capital of the company at, say, 45 to 50 per cent. of its par value, Mr Childers undoubtedly incurs a grave responsibility.

Under the belief in the return of prosperity to the Great Western of Canada, the ordinary share capital is now valued in the market, and investments made in it, at a total of about £2,400,000. Yet persons, whose judgment from their knowledge of the subject we are bound to respect, assert as their deliberate opinion that the ordinary share capital of the Great Western of Canada is not worth a shilling. Let us then examine the following not uninteresting questions:—Is the share capital of the Great Western worth the market value of £2,400,000? Or, is it worth anything at all? And is Mr. Childers justified in alluding to the "return of prosperity," as a matter of course, after what he had told us of the position into which this undertaking has now fallen?

To summarize the Report as briefly as possible:—It tells us that (although the second half is always the more profitable of the year) the deficiency in revenue to meet the interest of bonds and accumulative preference interest has grown from £26,000 to £50,000; that £78,000 of bad debts, or depreciation of assets, must be written off from revenue at the rate of £13,000 a-year for the next six years; that no provision has been made to meet the depreciation in the permanent way recently laid throughout with steel rails, which, as the Committee reported, were already shewing serious signs of wear. This provision is postponed to some future time, when they

may "be able" to attend to it ; but, in order to enable us to understand the true position of the concern, it ought to be estimated now. If we allow fifteen years' life for the steel rails (about four times the life experienced from iron rails), we get an annual depreciation of £33,000, and this we think the very lowest figure that should be debited to revenue under this head.

Let us see, then, what is the position of this Company in the half year now current :—

In the corresponding half-year of 1874 the deficiency of revenue was	£149,000
In the first month (February) of which returns are already published, there is an additional deficiency of	66,000
For the remaining five months we shall estimate only $20,000 per month	100,000
The increase in the preference interest for the half-year as compared with 1874 is	17,000
The sum to be written oft for bad debts, as recommended in the Report, is, for the half-year, £6,500, or	32,000
The depreciation of steel rails is, as above	81,000
There will be a loss in working the leased lines at least equal to that for the second half of 1874, whereas there was no loss charged in the first half	28,000
(The Report tells us in rather ominous language that the leased lines will require increased charges for renewal.)	
Total deficiency for the half-year	£473,000
As the debenture and preference interest amounts to	£540,000

for the half-year, the result may be roughly stated, that the company is earning about *one-seventh* of its prior charges, leaving six-sevenths to accumulate against its revenue account. Such a position is disastrous enough without saying more ; but the Report makes things even worse, for it shews us that the company is still charging to *capital* account such items as

renewing in steel rails, additional sidings, new bridges and culverts, alterations to embankments, waterways, &c., amounting to £57,000 in the half-year.

And we are gravely informed that £11,000 for the renewal of a bridge is also to be charged to capital account! Are these prodnctive expenditures? And is not the capital account sufficiently over-burdened already? Surely it is time the capital account was absolutely closed, and that the farce of charging necessary expenditure for maintenance against capital should be put an end to.

If this position were merely the result of a commercial crisis, the shareholders might console themselves and exercise "patience." But the report tells the shareholders, what we told our readers long ago, that this is not the case, and that the causes are not removable. If it were the result of a crisis, we should see the leading American lines in the same position; but the Baltimore and Ohio, Pennsylvania, and New York Central are maintaining the dividends they paid before the late crisis, which was a crisis of no small magnitude. The Grand Trunk of Canada is showing increase of traffic, and only those that have outrun the constable in expenditure, or suffered from competition, have seriously suffered. We will quote Mr. Childers own statement of the causes, to show that we have anything but exaggerated the position in what we have hitherto laid before our readers:—

I propose to describe in a few words the present position of the Company in respect of the competition to which it has been and *always must be exposed.* The Great Western Railway forms a link in one of the several systems of communication between the Atlantic ports and the Western and North-Western States. These ports may be stated to be Montreal and Quebec on the River St. Lawrence, Portland, Boston, New York, Philadelphia, and Baltimore. The Western States, in the business of which the Company is interested,

extend from Minnesota as far south as Missouri. As between these districts east and west, it may be said that at present the Great Western competes with no less than six lines, lying nearly parallel to it along its whole course. These six are:—The Grand Trunk Railway, the Canada Southern Railway, the Lake Shore and Michigan Southern Railway, the Atlantic and Great Western Railway, the Pennsylvania Railway, and the Baltimore and Ohio Railway. Each of these six railways shares with the Great Western and its connexions the transport of grain and other produce from the West to the Atlantic States and ports, of manufactures from the Atlantic seaboard to the West, and of passengers both ways. Nor is this competition confined to "through" business. A glance at the map will show that in the province of Ontario, where for many years the Great Western was formerly exposed to a much more limited competition, the Company has now rivals at every point. Our own lines extend from Toronto, Suspension Bridge, and Buffalo on the eastern side, to Sarnia and Detroit on the western. But from Toronto and Buffalo to Sarnia and Detroit we are in competition with the Grand Trunk; and from Suspension Bridge and Buffalo to Detroit with the Canada Southern. At Sarnia the Grand Trunk's Ferry over the St. Clair River is shorter than ours; and at Amhertsburg the ferry of the Canada Southern, though not so conveniently situated as ours for the Detroit traffic, is at a narrower point of the river. We are also exposed to the competition of one or other of these companies at almost every town in Western Canada from which we derive traffic. This competition for both "through" and "local" business has become much more formidable during the last year. The extension of the Baltimore and Ohio line to Chicago was only completed during my visit to America. The New York Central Company, with which we interchange so much traffic, has only recently obtained complete control over the amalgamated Lake Shore and Michigan Southern Lines, and we must be prepared at any time to hear that they are still more closely united. The Canada Southern was only opened for traffic in November 1873. The gauge of the Grand Trunk was also assimilated to that of the New York Central and Michigan Central lines only last year. Thus three or four additional elements of railway competition have, to our disadvantage, come into operation within a few months past. Besides the railway competion, we have to take into account an immense development during the last year in the facilities for water transportation afforded by the powerful and roomy steamers lately placed on the lakes and canals. The Company has received these blows at a time when it could least afford to bear them. To say nothing of the very large capital

expenditure which had been incurred in 1873, that year witnessed a more unexpected, and at the same time a more deep-seated, commercial panic than had almost ever been known in the history of the United States. Its effect on the business of the railways was most disastrous; nor had there been any recovery before I left America. On the contrary, the depression was intensified by the results of the unprecedentedly good harvest of last year in Europe. A large proportion of our earnings is derived from the transport of grain from the Western States to the sea-board. I estimate that this winter and spring, the aggregate receipts, from the grain business, of all the transportation lines will not have been much more, if at all, than one-fourth of the normal amount; and when I left America there appeared no prospect whatever of a revival of this trade, until the results of the harvest of 1875 could be estimated. Thus the Company is simultaneously subjected to three unfavourable influences: First, the necessity of paying interest on a greatly increased bonded and preference capital; secondly, the prostration of commercial business, and especially the grain trade; and, thirdly, vastly augmented competition. To these may be added a disadvantage connected with what at first appeared likely to benefit all concerned. Formerly at the eastern ports, and notably at New York, the Company issued its own tickets and freight notes, which were recognized by the American lines working with us. But the offices established for this purpose were treated as "outside agencies," and it was one of the principles of the Saratoga Convention, held during last summer (under which the principal American lines agreed to establish uniform rates, and to discontinue granting commissions), that all outside agencies should cease. The Saratoga Convention itself has broken down, but I expect that this prohibition will be maintained. However fairly we may be treated by the great American Railway Companies, I fear that the loss of our former privileges in this respect (a loss which I only heard of when I arrived at New York), will, in the long run, seriously affect us.

Is this not sufficient evidence to convince us that the railway is ruined both presently and perpetually? Instead of being a single line, with a capital of £5,000,000, enjoying the whole traffic of a district, and being the best link in the through communication, it has made itself a double track, raised its capital within a few years to £9,500,000, without

adding a single productive mile to its system, and it has now a parallel line to the south shorter, straighter, more level, and made at a much cheaper cost, running at a distance varying from 1 to 20 miles, and another to the north at distances varying from 1 to 25 miles, both of them, as Mr. Childers says, cutting into the local traffic at every point—between which competitive lines the Great Western is simply done to death.

The prior charge capital of the line in this position is £4,100,000, for a productive mileage of 350 miles, or about £12,000 per mile, while none of the new lines being constructed in Canada cost more than £6,000 per mile, and the Canada Southern could be bought for less than this. Is there, then, any value whatever in the ordinary shares of the Great Western of Canada beyond the £4,100,000 of debenture or preference? We fear not; and if it be so, to encourage any opposite opinion will be to take the responsibility of the loss to be incurred by those investors who may purchase shares under the delusion that they are cheap. The probabilities are that, after a year or two more of accumulated deficiencies, a receiver will be appointed, and a reconstruction of the capital, made in accordance with the value of the property, take place.

One word as to the change in management announced in the report. Mr. Broughton is not the first English railway man who, after a scamper over some American roads, has imagined that he can effect great reform and economies, but who, when he came to undertake the task, found that he had everything to learn, and took years to learn it. Percentage of working expenses does not depend only upon the cost of working, but upon the rates of remuneration received for the traffic carried. If English railways, now worked at 50 per

cent., had their rates of carriage reduced to one-half, their working expenses would evidently be at once raised to 100 per cent. This is the difficulty with regard to American through traffic ; the great through lines enjoying a good local traffic, and having comparative small capitals, can pay good dividends, even if their through traffic leaves them only 20 per cent. of margin. Hence the steady lowering of rates that has taken place year by year, and hence, also, the reason to fear that the old paying rates will never return ; but that, on the contrary, the agitation throughout America for still further reductions may not be without fruits of an unpleasant kind to shareholders.

Our readers, we trust, will gather from this and our previous articles, that we are as ready to warn them and the public against any dangerous investment in Canada, whatever it may be, as we shall always be to promote and encourage investments of a well-secured kind.

POSTSCRIPT.

Since the publication of the foregoing article, we have received comments upon our figures, as respects the estimate of our revenue for the current half-year, to which it is proper we should allude.

It is objected to our charge of $81,000 for depreciation of steel rails, that revenue is now being charged with $45,000 per half-year for the cost of changing the gauge, which will cease in 1876, and that our estimate includes another exceptional charge of $32,000, which will cease in six years.

We gladly admit the fairness of this objection, and were we sure that no part of the present charges against capital ought to be placed against revenue, we would amend our estimate to the full extent of these two items amounting to $77,000, leaving a *deficiency* of only $396,000 to meet the interest charges of $540,000.

Unhappily, however, it appears that we have underestimated the falling off in the net revenue.

At the same rate of saving in working expenses as in February, the March return will show a net diminution, as compared with March, 1874, of $30,000, instead of the $20,000 a month of our estimate. Further, the traffic returns published for April indicate that the net loss for this month will not be less than $50,000.

Canadian advices also indicate that there will be extreme depression in the summer rates after the opening of navigation, and therefore it is to be feared that the remaining three months of the half-year must also show very serious diminutions compared with 1874. The falling off in February, March, and April being $146,000, we cannot estimate

that of the remaining three months at less than $90,000, or $236,000 for the six months, instead of the $166,000 in our first estimate.

Such a result on two main lines indicates a further loss in working the leased lines, the estimate for which must be raised to $40,000.

We therefore give an amended estimate, leaving out the charge for depreciation of steel rails as nearly counterbalanced by other exceptional charges, and, to suit those of our readers unfamiliar with dollars, we give the figures in sterling.

Deficiency in half-year ending 31st July, 1874......	£30,000
Additional loss in first three months, 1875	29,000
,, ,, remaining estimated	18,500
Increase in Preference Interest	3,500
Write off for bad debts as per report.................	6,500
Loss on working leased lines	8,000
	£95,500

The Interest charge for the half-year being £110,000, the net earnings will only be £14,500 to meet this sum, the share of capital of £5,500,000 being left out of the calculation altogether.

P.P.S.—The return for the month of March, due here on the 21st, has been published to-day (28th), and instead of a decrease of $30,000, there is an increase shown of $3,000, as compared with $66,000 decrease in the previous month.

When this return is examined, however, we find the working expenses of the same month last year given as $387,000, whereas they were then returned as $377,000. On the other hand the traffic returns for the best four weeks of March showed a decrease of $70,500, to which the decrease for three days has to be added (about $7,000 more), whereas the return now published shows only $59,000 decrease in the month.

Thus we think our estimate of $30,000 net decrease will prove nearly correct, while it would appear that the necessity for investigation into the way the returns of this Company are treated has not ceased.